HOUSE BUDGET COMMITTEE

Democratic Caucus

The Honorable John M. Spratt Jr. ■ Ranking Democratic Member

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The Expiration of Budget Rules: What Happens Next?

Dear Democratic Colleague:

An important budgetary issue facing the Congress this year is whether to extend discretionary spending caps and pay-as-you-go (PAYGO) rules which are scheduled to expire on October 1, 2002. These rules have helped provide the fiscal discipline needed to convert chronic deficits we started to experience in the 1970's into the surpluses we enjoyed in the late 1990's. Last year, the Republicans passed a $1.7 trillion tax cut and suspended the budget rules that would have required an offset. This tax cut has brought back near-term deficits we worked so hard to eliminate and helped wipe out much of the long-term surplus. If extended, discretionary spending caps and PAYGO rules could help to provide the discipline needed to deal with current fiscal constraints. Following is a brief analysis of the discretionary spending caps and the PAYGO rules.

Background of the Budget Enforcement Act

In 1990, Congress enacted the BEA in an effort to rein in deficits that the government had experienced yearly since 1970. The BEA replaced the enforcement provisions of the Balanced Budget and Emergency Deficit Control Act of 1985, also known as the Gramm-Rudman-Hollings Act, which had failed to meet its objective of yearly deficit targets. The BEA, instead of focusing on specific deficit limits, sought to control the budgetary impact of legislation Congress passes each year through two main enforcement provisions: discretionary spending caps, which set limits on appropriations, and PAYGO provisions, which provide that increased mandatory spending and tax cuts be completely offset by either decreases in other mandatory spending or tax increases. Both discretionary caps and PAYGO are enforced through sequestration of all programs that are not specifically exempted. The discretionary spending caps and the PAYGO provisions have been extended twice and are scheduled to expire October 1, 2002.

Comparison of the Role of the Budget Enforcement Act in Eras of Deficits and Surpluses

When Congress adhered to discretionary spending caps and PAYGO rules during the 1990's, Congress was able to convert chronic deficits into record surpluses. In 1992, the federal deficit was $290 billion. By 1998, however, the government had a surplus of $63 billion, its first surplus since 1969. By January 2001, CBO predicted surpluses as far as the eye could see, totaling $5.6 trillion over the next ten years.

The BEA is written to apply to budget-related legislation whether the government is in deficit or surplus. However, CBO's surplus projections in recent years have prompted members of Congress to bypass the BEA in efforts to utilize anticipated surpluses. Congress has found ways to evade both the discretionary caps and PAYGO rules. In regard to the caps, Congress has designated some routine and expected government spending as emergencies, and provided advanced appropriations, which allow Congress to move resources from one year to another. Additionally, Congress has statutorily raised the caps, as it did in the 2002 Defense Appropriations conference report, which allowed for the $686 billion in discretionary spending agreed to by the Administration and the Congress.

In regard to PAGYO rules, Congress has approved tax cuts and spending initiatives while it has avoided offsets by adopting language to prevent sequestration. For example, to avoid sequestration resulting from last year's tax cut, language was adopted in the 2002 Defense Appropriations conference report that instructed the Office of Management and Budget Director to set PAYGO balances at zero for 2001 and 2002.

As mentioned, the fiscal landscape has significantly changed since the beginning of 2001. The anticipation of a $5.6 trillion surplus over years 2002 through 2011 has dwindled to a likely January 2002 projection of about $2 trillion over the same time period. Extension of discretionary caps and PAYGO rules may be one tool that can be used to minimize further erosion of the surplus.

Discretionary Spending Limits and PAYGO Rules for 2002 and Beyond

The overall discretionary spending cap will remain in effect only for the balance of fiscal year 2002. Unless a new cap is established, there will be no discretionary spending limits in place for fiscal years 2003 and beyond. Although Congress has adopted separate spending caps for highway, mass transit, and conservation categories that go beyond 2002, these small, targeted caps do not represent significant constraints on overall discretionary spending. Lack of discretionary spending limits for upcoming years may prompt Congress to avoid critical discussions of discretionary spending priorities.

Similarly, PAYGO rules do not apply to direct spending or tax legislation enacted on or after October 1, 2002. Although the PAYGO scorecard continues to exist after 2002, it includes only direct spending and tax legislation enacted prior to October 1, 2002, that has a net cost on the PAYGO scorecard for any fiscal year through 2007. The PAYGO scorecard currently carries large balances for fiscal years 2003 through 2006, primarily as a result of the Bush tax cut passed last year. As a result, sizable sequesters would already be anticipated for these years unless legislation is passed that sets the PAYGO scorecard to zero or otherwise prevents a sequester. (As noted previously, Congress set PAYGO balances for fiscal years 2001 and 2002 to zero in the 2002 Defense Appropriations bill to avoid sequestration for those years). Without PAYGO rules beyond 2002, it will be harder for Congress to address the fiscal implications of future legislation.

Congress should carefully consider whether and in what form to extend the budget rules. Please do not hesitate to call me or the Democratic staff of the House Budget Committee if you have further questions on this issue.

Sincerely,

John M. Spratt, Jr.
Ranking Democratic Member